

Good Governance and Board Leadership: Engendering Transparency and Trust

Private Sector Organization of Jamaica

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Outline of the presentation

1. Governance – definition and importance.
2. Civil society, governance and the building of social capital.
3. The importance of trust.
4. Governance best practices.
5. Board leadership – building trust.
6. Being an effective Director

What is governance?

Governance is the exercise of due diligence by an oversight body, charged with stewardship of the organization's assets, to ensure it functions in a sound and sustainable way, in accordance with its strategic goals”

Building social capital

- A strong and functional civil society with well-governed and well-managed organizations, in multiple sectors, is a firm foundation for addressing social and economic problems.
- Civil society helps to create economic and social networks that sustain and support enterprises, within and beyond the family, and build social capital.

Governance is important across sectors and scales of enterprise

Good governance is desirable in:

- All organizations that make up civil society – private and public sectors, NGOs, voluntary organizations, educational institutions, churches, and others.
- Small, medium and large-scale enterprises.
- Family-controlled businesses as well as those with professional management.

Contextualizing governance guidelines

- Not everything we discuss will seem immediately applicable to your circumstances
- Given your sector, size and structure – which practices are appropriate?
- Are you meeting requirements for reporting and disclosure?
- Can you go beyond these requirements to enhance your governance practices?

Why is good governance important?

1. It enhances individual director engagement and satisfaction and reduces risk.
2. Well-governed and well-managed organizations are more likely to achieve their strategic and operational objectives.
3. Well-governed organizations become role models and credible leaders in building social capital.

Factors weakening good governance (Transparency International)

1. Criminal activity and violence
2. Social challenges - poverty and unemployment
3. Corruption (85% Jamaicans identify as a problem)
4. Lack of transparency and accountability in political finance

These factors hinder investment and economic development.

The PSOJ's Role

“The PSOJ is an important part of Jamaica’s civil society, the voice that is best poised to partner with our governments and citizens to create relevant solutions for our economy. As a business community we play a key role in stabilizing Jamaica’s economy by promising and instituting good governance practices...”

President’s Remarks to 2008 PSOJ Annual Meeting.

The importance of trust

“A nation’s well-being, as well as its ability to compete, is conditioned by a single pervasive cultural characteristic: the level of trust inherent in the society.”

Francis Fukuyama Trust: The Social Virtues and the Creation of Prosperity.

An Environment of Diminished Trust

1. Diminished trust in organizations and individuals.
2. Perception of contribution of governance failures to diminished trust.
3. Demands for higher levels of accountability from shareholders, clients, public, government.
4. Reputation of organizations rests, to a considerable extent, on good governance which engenders trust.

Evidence of declining trust

2005 US Poll reported in Covey, 2006	Percent
Trust in government	27
Trust in media	22
Trust in large companies	12
Trust in political parties	8

Stephen M. R. Covey, with Rebecca Merrill,
The Speed of Trust, NY: Free Press, 2006

Jamaicans and trust (Powell)

- Powell reported high levels of personal distrust. Most respondents to a survey (over 80%) said that you can never be too careful in dealing with others.
- Around 60% said people cannot be trusted
- Implications for building “social capital”

Trust and scale of enterprise

Regardless of size and complexity, all enterprises from multiple sectors and business enterprises, from the sole proprietorship, through small and medium sized firms to the largest companies, require interaction and collaboration among individuals and trust is at the heart of those interactions.

The Jamaican landscape of MSMEs

- Nearly 3,000 family-controlled businesses in Jamaica
- Small enterprises - sole proprietorships and partnerships dominate
- Concentration in the service sector
- Nearly 75% started by current owners

Trust within and outside family-based business

- Characteristic of many small businesses is that they are family owned and operated.
- Trust tends to be high within families
- Challenge of building and maintaining trust-
 - between enterprises
 - within the enterprise as generations change and non-family managers enter
 - meeting that challenge can lead to a new, successful, business model, free from previous constraints

Networks of economic enterprises

- In some cultures, trust can be engendered between, as well as within enterprises, by the development of networks of enterprises where the resources of the individual firms can be utilized for the benefit of the collective
- This model may be a potential fit in Jamaica too.

Reciprocity

- Trust can develop when individuals share values and expectations.
- Where trust exists, the need for rules and regulations diminishes and functioning can increasingly be based on reciprocity
- Reciprocity, in turn, strengthens trust.

Good governance engenders trust

- All enterprises can gain assistance in implementing appropriate governance practices that will engender trust and reciprocity throughout civil society.
- Today the PSOJ launches two resources that document governance best practices:
 - the new “Code on Corporate Governance” and
 - the “Handbook and Tool Kit on Good Governance”

Round table

What are the governance best practices that will engender trust?

Key elements – the top ten

1. Transparency, competence & diversity in selecting directors.
2. Orientation, education and support of directors.
3. Establishment of a policy framework and well-understood division of responsibilities between Board and management.
4. Clear strategic vision and goals.
5. Code of conduct re conflict of interest and fiduciary duty.

Key elements – the top ten (cont.)

6. Performance evaluation of Board functioning.
7. Attention to succession planning.
8. Risk management and mitigation.
9. Compliance, timely and accurate reporting.
10. Transparency.

Board leadership that engenders trust

Trust and leadership

- “Trust is the key leadership competency of the new global economy.”
- “Leadership is getting results in a way that inspires trust.”

Stephen M. R. Covey, with Rebecca Merrill

The Speed of Trust

Round table

- How does the Board chair exercise leadership in a way that fosters good governance?

Framework for trust in leadership (adapted from Burke et al., 2007)

Antecedents

- Ability
- Benevolence
- Integrity

Moderators

- Leader reputation
- Past experience
- Organizational climate

Outcomes

- Enhanced performance
- Greater reciprocity
- Impact on bottom line

Characteristics of the Board chair that will promote trust - ability

1. Credentials and experience.
2. Able to articulate a vision and invite critique.
3. A clear communicator – listening as well as expressing.
4. Skilled in encouraging consensus, resolving differences.
5. Clear grasp of procedure.
6. Patient.

Characteristics of the Board chair that will promote trust - benevolence

1. Fostering a positive and respectful climate for discussion.
2. Mentoring and coaching.
3. Operating in a consultative way.

Characteristics of the Board chair that will promote trust-integrity

1. Modeling personal accountability.
2. Acting fairly, consistently, respectfully.
3. Emphasizing organizational values in decision-making.
4. Encouraging diversity – in membership, in points of view.
5. Highlighting expected conduct, ruling on perceived or actual conflicts of interest.

Moderators of trust

1. Board leader's reputation.
2. Past experience.
3. Organizational climate:
 - relations among Board members
 - relations between Board chair and CEO
 - relations between Board and management.

Outcomes of enhanced trust and reciprocity

1. Stronger governance practices which enhance satisfaction, reduce turnover.
2. Better managed organizations.
3. Better communication.
4. Enhanced commitment to team success.
5. Benefits to the bottom line.

The director's role in engendering trust

Your role and responsibility as a director

1. Stewardship.
2. Duty to the organization as a whole not to any one constituency.
3. Act in the best interests of the organization.
4. Make your contribution to building trust.

What directors should know (Governance Manual)

1. Organization's history, mission, vision, values and strategic and business plans.
2. Organization's legal status and By-Laws.
3. Director's role and responsibilities, authority and limits, protections.
4. Principal stakeholders and their expectations.
5. Principal risks.
6. Main policies and committees.
7. Their CEO.

What directors should do

1. Attend, be well-prepared, ask questions, actively participate, contribute knowledge and expertise.
2. Be self-aware re interactions with the Chair, fellow directors and CEO, demonstrating respect and openness.
3. Support the Chair.
4. Comply with requirements for confidentiality.
5. Declare any actual or potential conflict of interest.
6. Act objectively, honestly, ethically and as a reasonably prudent person would.

Summary

1. The importance of good governance transcends sector, structure and scale of enterprise.
2. A well-functioning civil society is one where trust is engendered both within and between organizations.
3. Good governance can help to mitigate and repair a climate of distrust, build reciprocity and advance economic and social goals.
4. Governance best practices are the benchmark.
5. Leadership and team cohesion will help achieve desirable outcomes.

Conclusion

Using the resources the PSOJ launches today, all organizations can contribute to Jamaica's advancement by reviewing their governance and adopting new and enhanced practices that will nurture and sustain trust, and thereby help to build a well-functioning civil society with the social capital Jamaica needs to address current challenges.

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